

DEPARTMENT OF ENERGY
FY 2003 CONGRESSIONAL BUDGET REQUEST
NAVAL PETROLEUM AND OIL SHALE RESERVES

Proposed Appropriation Language

For expenses necessary to carry out *naval petroleum and oil shale reserve activities*, \$21,069,000, to remain available until expended; *Provided further*, That notwithstanding any other provision of law, unobligated funds remaining from prior years shall be available for all naval petroleum and oil shale reserve activities.

DEPARTMENT OF ENERGY
FY 2003 CONGRESSIONAL BUDGET REQUEST
NAVAL PETROLEUM AND OIL SHALE RESERVES
(Tabular dollars in thousands, narrative in whole dollars)

PROGRAM MISSION

In accordance with the Naval Petroleum Reserves Production Act of 1976, the Naval Petroleum and Oil Shale Reserves (NPOSR) has served valuable functions not only as a source of revenue for the U.S. Treasury, but also as a model for improved oil field practices. Since the NPOSR no longer served the national defense purpose envisioned in the early 1900's, the Elk Hills field in California (NPR-1) was sold to Occidental Petroleum Corporation. The Department continues activities to finalize its Elk Hills equity interests with Chevron USA, co-owner of Elk Hills. Subsequently, the Department transferred two of the Naval Oil Shale Reserves (NOSR-1 and NOSR-3), both in Colorado, to the Department of Interior's Bureau of Land Management. DOE retains oversight responsibility, which is funded through revenues collected from the lease sale. In January 2000, the Department also returned the NOSR-2 site to the Northern Ute Indian Tribe. The U.S. retains a 9 percent royalty interest in the value of any oil, gas, other hydrocarbons, and other minerals produced from the conveyed land, which will be applied to costs for remediation of the uranium mill tailings site near Moab, Utah. The Tribe will be responsible for protection of the Green River, which flows through the property, and sensitive resources on the land.

The Rocky Mountain Oilfield Testing Center (RMOTC) was established by the Department at the Teapot Dome field to partner with petroleum industry to improve domestic oil and gas production. Activities include field testing of new technology, evaluation of new equipment, and demonstration of new processes. It is the most comprehensive test site in the U.S. for field testing of upstream petroleum and environmental products.

STRATEGIC PERFORMANCE GOAL

- Realize gross revenues from primary production at NPR-3 of \$5.2 million (FY03).
- Royalties from 17 lease agreements at NPR-2 reach \$2.0 million (FY03).
- Increase utilization of RMOTC.

PERFORMANCE INDICATORS

- (1) Average production operations of 525 barrels of oil and 1,500 gallons of natural gas liquids per day at NPR-3.
- (2) Utilization of new RMOTC recovery techniques to enhance oil reserves at NPR-3.

ANNUAL PERFORMANCE RESULTS AND TARGETS

FY 2001 RESULTS	FY 2002 RESULTS	FY 2003 TARGETS
<ul style="list-style-type: none"> Maintain positive cash flow for NPR-3 field operations. 	<ul style="list-style-type: none"> Maintain positive cash flow for NPR-3 field operations. 	<ul style="list-style-type: none"> Maintain positive cash flow for NPR-3 field operations. Complete environmental assessment at NPR-2. Close-out two NPR-1 environmental remediation findings (per agreement with CA Department of Toxic Substance Control).

SIGNIFICANT ACCOMPLISHMENTS AND PROGRAM SHIFTS:

REVENUES: For the five years preceding the sale of Elk Hills in FY 1998, NPOSR generated an average net cash flow to the Government of more than \$200 million annually. By contrast, total program revenues during FY 2003 are estimated to be \$7.2 million.

NOSR-2: In January 2000, the Department returned the NOSR-2 site to the Northern Ute Indian Tribe. All of the Reserve except for a small tract of approximately 5,000 acres west of the Green River was conveyed. This acreage, along with a portion of the Green River that is currently under the jurisdiction of the Department, will be transferred to the Department of Interior. A one-quarter mile easement on the east side of the Green River within the reserve will also be provided to the Interior Department.

BUDGET HIGHLIGHTS

The FY 2003 budget request is structured to reflect the operations and management activities for the three remaining activities; NPR-2, NPR-3, and RMOTC. The Elk Hills closeout work includes reservoir engineering analysis to determine final equity percentages; legal support for all sale-related issues; and environmental remediation and cultural resource activities required as a result of the sale agreement. Responsibilities for the other properties include management and environmental compliance of the 17 NPR-2 leases; operation and maintenance of NPR-3 field operations; and environmental remediation of NPR-3.

DEPARTMENT OF ENERGY
 FY 2003 CONGRESSIONAL BUDGET REQUEST
 FOSSIL ENERGY
 (Dollars in thousands)
 PROGRAM FUNDING PROFILE
 NAVAL PETROLEUM AND OIL SHALE RESERVES (NPOSR)

<u>Activity</u>	<u>FY 2001 Comparable</u>	<u>FY 2002 Comparable</u>	<u>FY2003 Request</u>	<u>Program \$ Change</u>	<u>Program % Change</u>
Production Operations	\$2,500	\$2,535	\$2,550	\$15	1%
Environmental Restoration	\$3,100	\$2,494	\$2,820	\$326	13%
Rocky Mtn Oilfield Testing Center	<u>\$4,596</u>	<u>\$3,000</u>	<u>\$3,000</u>	<u>\$0</u>	<u>0%</u>
Subtotal, Production and Operations	\$10,196	\$8,029	\$8,370	\$341	5%
Program Direction ^a	\$5,952	\$5,438	\$3,993	-\$1,445	-27%
HQ/FE Equity	\$4,500	\$4,200	\$4,200	\$0	0%
NPRC Equity	\$1,600	\$2,000	\$2,000	\$0	0%
Business Management & Support	<u>\$4,631</u>	<u>\$2,950</u>	<u>\$2,506</u>	<u>-\$444</u>	<u>-15%</u>
Subtotal, Management	\$16,683	\$14,588	\$12,699	-\$1,889	-13%
Grand Total, NPOSR	\$26,879	\$22,617	\$21,069	-\$1,548	-7%
Use of Prior Year Funds	<u>-\$25,050</u>	<u>-\$5,000</u>	<u>\$0</u>	<u>\$5,000</u>	<u>100%</u>
Adjusted Total	\$1,829	\$17,617	\$21,069	\$3,452	20%
Staffing (FTEs)					
Headquarters	12	10	10		
Field	<u>23</u>	<u>23</u>	<u>22</u>		
Total Staffing	35	33	32		

^a The FY 2001 and FY 2002 column of the FY 2003 Congressional Request includes funding in the amount of \$233,000 and \$246,000, respectively, for the Government's share of increased costs associated with pension and annuitant health care benefits. These funds are comparable to FY 2003 funding of \$238,000. (Note: The data is presented on a comparable basis as if the legislation had been enacted and implemented in FY 2001.)

**DEPARTMENT OF ENERGY
 FY 2003 CONGRESSIONAL BUDGET REQUEST
 FOSSIL ENERGY
 NAVAL PETROLEUM AND OIL SHALE RESERVES
 (Dollars in thousands)**

SUMMARY OF CHANGES

FY 2002 Enacted	\$17,279
- Pay Increase	\$+92
- Full funded Retirement	<u>\$+246</u>
FY 2003 Base	\$17,617
 <u>Production and Operations</u>	
- Increase reflects continued funding for environmental restoration	+341
 <u>Management</u>	
- Decrease reflects reduced staffing and support services	\$-1,889
 <u>Prior Year Funds</u>	
- Increase reflects use of prior year funds in previous fiscal year	\$+5,000
 FY 2003 Congressional Budget Request	 \$21,069

NAVAL PETROLEUM AND OIL SHALE RESERVES
FY 2003 CONGRESSIONAL BUDGET REQUEST
(Dollars in thousands)

I. Mission Supporting Goals and Objectives:

Production and Operations funds all environmental remediation analysis activities for NPR-1 and operation, maintenance, and production activities for NPR-3. Funds will be used for ongoing conventional oil field management and operations such as operating, maintaining and repairing facilities and equipment; well work overs; engineering support; technical support; purchase of field equipment; and environmental, safety, and quality assurance support. Funding for the Rocky Mountain Oilfield Testing Center (RMOTC) center is through cost and resource sharing arrangements with industry, Federal, State and local governments, Native American tribes, trade associations, technology centers, national labs and academia. There are minor costs (less than \$15,000 per year) associated with monitoring the environmental status of NOSR-3. Funds for remediation would be derived from an account established in the U.S. Treasury from the proceeds of Department of the Interior lease royalties.

Management funds all costs of NPOSR personnel associated with oversight, monitoring, invoicing and royalty evaluation for the 17 lease agreements at NPR-2. The business management activities include petroleum sales and deliveries, quality assurance, financial management, procurement, and contract management. The administrative support activities include ADP, safety and quality assurance programs and requirements associated with the divestment of Elk Hills. Support for the settlement of equity shares with Chevron U.S.A, the minority owner of Elk Hills, is a major activity for NPOSR for which geologic, petrophysical and reservoir engineering services are required to prepare and support the Government's equity position before an Independent Petroleum Engineer and the Assistant Secretary for Fossil Energy (ASFE). Under the *Equity Redetermination Process Agreement*, the ASFE is to impartially determine final equity shares between Chevron and the Department of Energy. The final equity determinations could result in a combined financial impact worth several hundred million dollars for the total of all four of the NPR-1 producing zones. Financial settlements resulting from the equity redetermination process will occur after final decisions have been made for all four zones, sometime during FY 2004.

II. A. Funding Schedule

<u>Program Activity</u>	<u>FY2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>\$ Change</u>	<u>% Change</u>
Production Operations	\$2,500	\$2,535	\$2,550	\$15	1%
Environmental Remediation & Cultural Resource Assessment	\$3,100	\$2,494	\$2,820	\$326	13%
Rocky Mountain Oilfield Testing Center	<u>\$4,596</u>	<u>\$3,000</u>	<u>\$3,000</u>	<u>\$0</u>	0%
Total, Production and Operations	\$10,196	\$8,029	\$8,370	\$341	5%
Use of Balances	(\$8,600)	\$0	\$0	\$0	0%
Program Direction	\$5,952	\$5,438	\$3,993	\$-1,445	-27%
HQ Equity	\$4,500	\$4,200	\$4,200	\$0	0%
NPRC Equity	\$1,600	\$2,000	\$2,000	\$0	0%
Business Management and Support	<u>\$4,631</u>	<u>\$2,950</u>	<u>\$2,506</u>	<u>(\$444)</u>	-15%
Total Management	\$16,683	\$14,588	\$12,699	\$-1,889	-13%
Use of Balances	(\$16,450)	(\$5,000)	\$0	\$5,000	100%

II. B. Laboratory and Facility Funding Schedule

<u>Program Activity</u>	<u>FY2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>\$ Change</u>	<u>% Change</u>
NPRC (Bakersfield, CA)	\$7,981	\$6,244	\$6,340	+\$96	+2%
NPOSR-CUW (Casper, WY)	\$11,936	\$9,727	\$8,899	\$-828	-8%
All Other	<u>\$6,962</u>	<u>\$6,646</u>	<u>\$5,830</u>	<u>\$-816</u>	<u>-12%</u>
Total, Naval Petroleum & Oil Shale Reserves	\$26,879	\$22,617	\$21,069	\$-1,548	-7%

III. Performance Summary: Production and Operations

Program Activity	FY 2001	FY 2002	FY 2003
Production Operations	<p>For NPR-3, continue routine O&M activities for production facilities, well maintenance, electricity and utilities, buildings, roads, heavy field equipment, motor vehicles and capital projects to be undertaken provided oil prices warrant such expenditures. Also provides for petroleum geology, production engineering, and reservoir studies.</p> <p>Crude oil production is estimated to average 600 barrels of oil per day. Natural gas liquids (NGL) production is estimated to average 1,500 gallons per day.</p> <p>Estimated revenues from NPR-3 are \$5.7 million. All revenues are deposited into the General Fund of the U.S. Treasury.</p>	<p>For NPR-3, continue routine O&M activities for production facilities, well maintenance, electricity and utilities, buildings, roads, heavy field equipment, motor vehicles and capital projects to be undertaken provided oil prices warrant such expenditures. Also provide for petroleum geology, production engineering, reservoir studies and, as required, upgrade facilities to support gas storage agreements with GSA.</p> <p>NPR-3's crude oil production is estimated to average 550 barrels of oil per day. Natural gas liquids production is estimated to average 1,500 gallons per day.</p> <p>Estimated revenues are \$5.0 million. All revenues are deposited into the General Fund of the U.S. Treasury.</p>	<p>For NPR-3, continue routine O&M activities for production facilities, well maintenance, electricity and utilities, buildings, roads, heavy field equipment, motor vehicles and capital projects to be undertaken provided oil prices warrant such expenditures. Also provide for petroleum geology, production engineering, reservoir studies.</p> <p>NPR-3's crude oil production is estimated to average 525 barrels of oil per day from primary production. Natural gas liquids production is estimated to average 1,500 gallons per day.</p> <p>Estimated revenues from primary production from NPR-3 are \$5.2 million. All revenues are deposited into the General Fund of the U.S. Treasury.</p>
Subtotal, Production Ops.	\$2,500	\$2,535	\$2,550

III. Performance Summary: Production and Operations

Program Activity	FY 2001	FY 2002	FY 2003
Environmental Remediation	<p>At NPR-3, continue plugging and abandonment of uneconomic wells and closing surface facilities that are no longer required to support production operations. The Pollution Prevention and Energy Efficiency Leadership Goals are reduction of hazardous wastes by decommissioning and restoring 3 tank batteries; remediating the area well sites being plugged and abandoned; reducing toxic chemicals subject to Toxic Chemical Release Inventory reporting by 18 percent; and reducing electrical energy consumption by 18 percent.</p> <p>At NPR-1, continue efforts to close findings as required by the agreement between DOE and the California Department of Toxic Substance Control. Gather information for the curation of NPR-1 artifacts.</p>	<p>At NPR-3, continue plugging and abandonment of 50 - 100 uneconomic wells (based on an average oil price of \$20 per barrel). Continue closing surface facilities that are no longer required to support production operations. Remove dry hole markers from wells plugged prior to 1998 and replace with underground markers; then rehabilitate the sites.</p> <p>At NPR-1, continue efforts to close remaining findings are required by the agreement between DOE and the California Department of Toxic Substance Control (DTSC). Gather information for the curation of NPR-1 artifacts.</p>	<p>At NPR-3, continue plugging and abandonment of 50 - 100 uneconomic wells (based on an average oil price of \$20 per barrel). Continue closing surface facilities that are no longer required to support production operations. Remove dry hole markers from wells plugged prior to 1998 and replace with underground markers; then rehabilitate the sites.</p> <p>At NPR-1, continue efforts to close remaining findings as required by the agreement between DOE and the California Department of Toxic Substance Control (DTSC). Risk assessment and data recovery work to determine extent of cleanup work at each site will continue, as needed. Some cleanup work will begin and related support services contractor work will continue. Gather information for the curation of NPR-1 artifacts.</p>

III. Performance Summary: Production and Operations

<u>Program Activity</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
	At NPR-2, activities include operational and environmental assessment and oversight.	At NPR-2, activities include operational and environmental assessment and oversight.	At NPR-2, activities include operational and environmental assessment and oversight.
	Monitoring of the spent shale pile at NOSR-3 will continue at a cost of less than \$15,000 annually.	Monitoring of the spent shale pile at NOSR-3 will continue at a cost of less than \$15,000 annually.	Monitoring of the spent shale pile at NOSR-3 will continue at a cost of less than \$15,000 annually.
Subtotal, Environmental Restoration	\$3,100	\$2,494	\$2,820

III. Performance Summary: Production and Operations

Program Activity	FY 2001	FY 2002	FY 2003
Rocky Mountain Oilfield Testing Center	<p>RMOTC will continue to develop partnerships and conduct tests, demonstrations and training programs. Goals of the RMOTC program include: increasing industry participation and funding to fully cover Federal government costs; expanding university participation and training opportunities; and establishing partnerships with other Government programs to better utilize the facility's resources. RMOTC will also participate in the Department's initiative for the oil shale technology exchange with the Baltic states. New funding was provided for engineering studies for feasibility of application of a subterranean production method at NPR-3. The major goal for FY 2001 is to provide ongoing service to industry testing and demonstration.</p>	<p>Continue operations at RMOTC with a priority placed upon funding of projects that will increase domestic oil reserves on public lands in an environmentally friendly manner. RMOTC will no longer pursue privatization. Projects conducted will be subject to suitable industry partners and funding arrangements. Examples of potential projects are: completion of a flow assurance facility, produced water bioremediation, single entry inclined reservoir drainage concepts and other drilling concepts that will reduce impacts on the environment. RMOTC will also complete other projects initiated in 2001 and continued testing of environmental remediation projects to reduce the Department's long term environmental liabilities. RMOTC will continue to participate in the Department's initiative for oil shale technology exchange with the Baltic States.</p>	<p>Continue operations at RMOTC with a priority placed upon funding of projects that will increase domestic oil reserves on public lands in an environmentally friendly manner. Projects conducted will be subject to suitable industry partners and funding arrangements. Examples of potential projects are: completion of a flow assurance facility, produced water bioremediation, single entry inclined reservoir drainage concepts and other drilling concepts that will reduce impacts on the environment. RMOTC will also continue to participate in the Department's initiative for oil shale technology exchange with the Baltic States.</p>
Subtotal Rocky Mountain Oilfield Testing Cntr.	\$4,596	\$3,000	\$3,000

III Performance Summary: Management		FY 2001	FY 2002	FY 2003
TOTAL, PRODUCTION & OPERATIONS		\$10,196	\$8,029	\$8,370
Use Of Balances		<u>(\$8,600)</u>	<u>\$0</u>	<u>\$0</u>
New BA Rqmt		\$1,596	\$8,029	\$8,370
Program Direction	Provide for 35 FTEs; 12 at Headquarters and 23 in the field. FTEs are be used in the following areas: policy and planning, equity determination, petroleum engineering, financial management, ADP, procurement, personnel, environment and safety, complete transfer of NOSR-2, and administration of reimbursable work programs for RMOTC.		Provide for 33 FTEs: 10 at Headquarters, 23 at the field. FTEs will be used in the following areas: policy and planning, equity determination, petroleum engineering, financial management, ADP, procurement, environment and safety, and administration of reimbursable work programs for RMOTC. It also includes support for the DOE Baltic initiative.	Provide for 32 FTEs: 10 at Headquarters, 22 at the field. FTEs will be used for policy and planning, equity determination, petroleum engineering, financial management, ADP, procurement, environment and safety, and administration of reimbursable work programs for RMOTC. Includes continued support for the DOE Baltic initiative.
Subtotal, Program Direction		\$5,952	\$5,438	\$3,993

III. Performance Summary: Management

Program Activity	FY 2001	FY 2002	FY 2003
Headquarters Equity	Provide for the expenses associated with finalizing equity shares between DOE and Chevron. This includes the independent petroleum engineer and legal support. Expert technical analysis and consultation is required to support the Principal Deputy Assistant Secretary, who makes the final determination.	Provide for the expenses associated with finalizing equity shares between DOE and Chevron. This includes the independent petroleum engineer and legal support. Expert technical analysis and consultation is required to support the Principal Deputy Assistant Secretary, who makes the final determination.	Provide for the expenses associated with finalizing equity shares between DOE and Chevron. This includes the independent petroleum engineer and legal support. Expert technical analysis and consultation is required to support the Principal Deputy Assistant Secretary, who makes the final determination.
Subtotal Headquarters Equity	\$4,500	\$4,200	\$4,200

III. Performance Summary: Management

NPRC Equity	<p>Stevens Zone: A preliminary Principal Deputy Assistant Secretary/Fossil Energy decision is expected by the second quarter of FY 2001. Parties will submit comments on the preliminary decision.</p>	<p>Stevens Zone: A final Principal Deputy Assistant Secretary/Fossil Energy decision will be issued.</p>	
	<p>Shallow Oil Zone. The Independent Petroleum Engineer will continue to work on the preliminary recommendation.</p>	<p>Shallow Oil Zone: The Independent Petroleum Engineer is scheduled to issue a preliminary recommendation in the third quarter of FY 2002. The parties will prepare and submit comments on the provisional recommendations.</p>	<p>Shallow Oil Zone: The Independent Petroleum Engineer is scheduled to issue a final recommendation after the fourth quarter of FY 2003 followed by owner assessments to the Principal Deputy Assistant Secretary for Fossil Energy.</p>
Subtotal, NPRC Equity	\$1,600	\$2,000	\$2,000

III. Performance Summary: Management

Program Activity	FY 2001	FY 2002	FY 2003
Business Management and Support	<p>Provides for administrative and technical support for Headquarters and field offices.</p> <p>For NPR-1, this means closeout of business management activities, funding for post retirement medical and dental benefits for former Elk Hills M&O contractor employees, and disposal of any existing litigation deriving from the former M&O's performance.</p> <p>For NPR-2, activities include administering 17 lease agreements which are expected to generate \$2.1 million in royalty revenues. Royalty payments are deposited into the General Fund of the U.S. Treasury. Activities include invoicing, witness metering, operational and environmental oversight, historical preservation requirements, royalty evaluation, and resource assessment.</p>	<p>Provides for administrative and technical support for Headquarters and field offices.</p> <p>For NPR-1, this means closeout of business management activities, funding for post retirement medical and dental benefits for former Elk Hills M&O contractor employees.</p> <p>For NPR-2, activities include administering 17 lease agreements which are expected to generate \$2.1 million in royalty revenues. Royalty payments are deposited into the General Fund of the U.S. Treasury. Activities include invoicing, witness metering, operational and environmental oversight, historical preservation requirements, royalty evaluation, and resource assessment.</p>	<p>Provides for administrative and technical support for Headquarters and field offices.</p> <p>For NPR-1, specifically, this means closeout of business management activities, funding for post retirement medical and dental benefits for former Elk Hills M&O contractor employees.</p> <p>For NPR-2, activities include administering 17 lease agreements which are expected to generate \$2.0 million in royalty revenues. Royalty payments are deposited into the General Fund of the U.S. Treasury. Activities include invoicing, witness metering, operational and environmental oversight, historical preservation requirements, royalty evaluation, and resource assessment.</p>

III. Performance Summary: Management

For NPR-3, this means general operational and administrative support. These activities include planning and analytical scheduling petroleum deliveries, quality assurance, invoicing and payment, human resources for continued field operations, and contracting and financial management.

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Subtotal, Business Mgt. And Support.	\$4,631	\$2,950	\$2,506
TOTAL, MANAGEMENT	\$16,683	\$14,588	\$12,699
Use of Balances	(\$16,450)	(\$5,000)	
New BA	\$233	\$9,342	\$12,699